

CentralNic Group

Interim results

Strong growth going largely unrewarded

Software & comp services

After a strong H121, management expects CentralNic to deliver revenue and profits for the year ‘at least at the upper end of market expectations’. Following its FY20 investment programme, the company delivered 20% y-o-y organic growth in H121 – 16% in Q121 and 25% in Q221, with all business lines contributing. Reflecting continuing strong growth, we have raised our FY21 and FY22 revenue targets to US\$350m and US\$379m, respectively, while adjusted EBITDA rises slightly to US\$41.1m and US\$45.2m. On our revised estimates, CentralNic’s shares trade on an undemanding FY21e EV/adjusted EBITDA of 10.0x and P/E of 12.9x, well below its web services and online marketing peers, despite its FY15–20 revenue CAGR of 78% and our estimate for current year growth of 45%.

Year end	Revenue (US\$m)	Adjusted EBITDA* (US\$m)	PBT* (US\$m)	EPS** (c)	DPS (c)	P/E (x)
12/19	109.2	17.9	16.1	9.24	0.0	15.4
12/20	241.2	30.6	19.8	10.57	0.0	13.4
12/21e	350.1	41.1	27.8	11.01	0.0	12.9
12/22e	378.8	45.2	30.9	11.40	0.0	12.5

Note: *Excludes impact of share-based payments, share option expense, foreign exchange charges and non-core operating costs. **FY21e and FY22e EPS figures reflect 228.8m voting shares in issue.

H121 results: Strong top-line growth

H121 gross revenues increased 57% y-o-y to US\$174.7m, with net revenues also rising 57% to US\$55.2m, a gross margin of 31.6%. Adjusted EBITDA rose 36% to US\$20.5m, with margins falling to 11.7% (H120: 13.6%), reflecting the increasing contribution from the lower margin Online Marketing segment. H121 adjusted EPS rose to 5.74 cents (H120: 4.45 cents). Adjusted operating cash conversion was 126%, with net debt falling marginally to US\$83.8m at 30 June 2021. As at 30 June 2021, the group’s gross debt totalled US\$123.3m, with cash of US\$39.5m.

FY21/22 estimates revised upwards, FY23 introduced

We have increased our FY21 revenue estimate by c 8% to US\$350m. Assuming higher sustainable organic growth of 8%, we have raised FY22e and FY23e revenue estimates to US\$379m and US\$409m, respectively. Gross margins rise from 32% in FY21e to 33% in FY22e and FY23e. Our FY21e adjusted EBITDA rises from US\$39.5m to US\$41.1m, at the top end of current consensus, with FY21e margins in line with H121 at 11.7%. We assume adjusted EBITDA of US\$45.2m for FY22e and US\$48.8m for FY23e, with a slight rise in margins to 11.9% for both years, benefiting from the anticipated operating leverage.

Valuation: Market-leading growth, marked discount

Whether we compare it to web services or online marketing, CentralNic continues to trade at a material discount to comparators. The web services peer group trades at P/Es of 26x for FY21 and 20x for FY22. We estimate that CentralNic will deliver 45% sales growth in FY21, meaning it offers among the strongest growth in the group and yet trades on an FY21 P/E multiple of 12.9x and an FY22 P/E multiple of 12.5x. CentralNic’s discount to the online marketing peers is even more marked.

1 September 2021

Price **103.0p**
Market cap **£236m**

£1.38/US\$

Net debt (US\$m) at 30 June 2021 83.8

Shares in issue (excluding 22.4m shares held in employee benefit trust) 228.8m

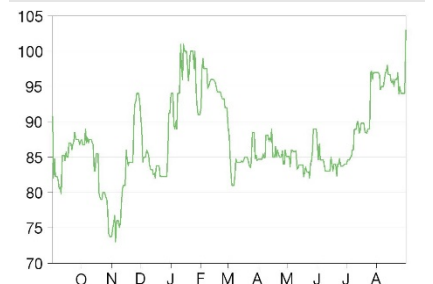
Free float 49%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	6.2	15.7	12.6
Rel (local)	4.1	13.1	(8.5)

52-week high/low	103p	73p
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Business description

CentralNic Group is a leading global domain name services provider, operating through three divisions: Reseller (number two globally); Corporate; and SME. Services include domain name reselling, hosting, website building, security certification and website monetisation (added at the end of 2019).

Next events

Q321 trading update	December 2021
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FY21 trading update	January 2022
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FY21 results	April 2022
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H121 interim results

Strong top-line growth, margins lower on business mix

CentralNic continued to trade strongly in H121 and, as a result, management expects to deliver revenue and profits for the year 'at least at the upper end of market expectations'.

H121 gross revenues increased 57% y-o-y to US\$174.7m (H120: US\$111.3m), with net revenues also rising 57% to US\$55.2m (H120: US\$35.2m), a gross margin of 31.6%, which is flat year-on-year (H120: 31.6%). Adjusted EBITDA rose 36% to US\$20.5m (H120: US\$15.1m), with margins falling to 11.7% (H120: 13.6%), reflecting the increasing contribution from the lower-margin Online Marketing segment, which makes up 55% of gross revenues and 47% of net revenues. H121 adjusted EPS rose to 5.74 cents (H120: 4.45 cents).

In terms of reconciliation between H121 adjusted EBITDA (US\$20.5m) and operating income (US\$4.7m), the principal elements were: US\$1.7m of depreciation (H120: US\$1.0m); US\$8.3m amortisation of intangible assets (H120: US\$5.4m); US\$5.1m of non-core operating expenses (H120: US\$2.8m), primarily related to M&A and the bond tap issue; a US\$1.0m foreign exchange gain on the outstanding bond (H120: loss of US\$0.4m); and US\$1.7m of share-based payment expenses (H120: US\$2.7m) related to acquisitions. This resulted in CentralNic reporting an H121 loss after tax of US\$1.5m (H120: a loss of US\$3.1m).

Adjusted operating cash conversion was 126%, with net debt falling marginally to US\$83.8m at 30 June 2021, from US\$85.0m as at 31 December 2020 (31 March 2021: US\$79.0m), despite the two acquisitions of SafeBrands and Wando in H121 for US\$11.1m, together with the settlement of the final US\$1.7m tranche of deferred consideration for Team Internet. The group completed a €15m bond tap issue in February 2021 at 104.5% of nominal value, taking the total outstanding bond value to €105m (of which €80m is hedged against the dollar). As at 30 June 2021, the group's debt totalled US\$123.3m, with cash of US\$39.5m.

FY20 investment helps to deliver 20% H121 organic growth

CentralNic has highlighted that it continued to trade strongly, both during lockdown and afterwards throughout H121. Benefiting from its FY20 investment programme, the company delivered 9% y-o-y organic growth in FY20, 16% in Q121 and 25% organic growth in Q221, with all business lines contributing. Management reported 20% y-o-y organic revenue growth for H121.

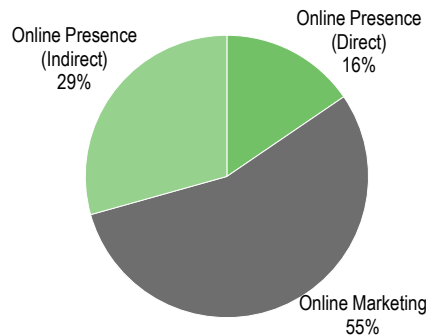
FY20 investment included streamlining group operations, unifying the group IT infrastructure and central corporate services, investment in people, as well as streamlining the internal supply chain. The company rolled out software tools (eg G-suite, Salesforce, Jira, Confluence, HiBob, Zendesk and Tableau) and invested in CentralNic's shared functions, building out the teams in new products, finance, people, development and integrations, and a single procurement function for domains and other microservices.

Staff costs have been elevated in H121 following three acquisitions completed since 30 June 2020, together with new hires recruited to accelerate organic growth. Growth in staff has slowed as CentralNic's team approaches its optimal size.

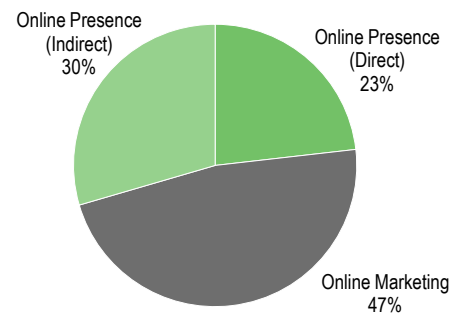
Segmental analysis: Online Presence, Online Marketing

CentralNic is combining the Direct and Indirect segments (domain name sales and value-added services) and will be reporting on this new segment, Online Presence, alongside Online Marketing in the future.

- Online Presence:** growth in domain name sales accelerated, but value-added services performed even more strongly. The Indirect segment reported organic growth of 12% in H121, as revenues increased 25% y-o-y to US\$51.3m (H120: US\$41.2m), with net revenues of US\$16.3m and a gross margin of 32%. Growth benefited from increased scale, led by key Wholesale brands notably in North America. In the Direct segment, both Retail and the Enterprise businesses continued to grow, with 10% organic growth leading to gross revenues rising 25% y-o-y to US\$27.0m (H120: US\$21.6m) with net revenues of US\$12.8m, gross margins of 47%. The segment was also lifted by the acquisition of SafeBrands in January 2021.

Exhibit 1: H121 gross revenue split


Source: CentralNic

Exhibit 2: H121 net revenue split


Source: CentralNic

- Online Marketing:** The acquisitions of Zeropark, Voluum and Wando Internet Solutions expanded the service offering to a full suite of online customer acquisition solutions, including data analytics. Online Marketing was CentralNic's fastest growing business in H121, with 28% organic revenue growth leading to gross revenues rising 99% y-o-y to US\$96.4m (H120: US\$48.5m), with net revenues of US\$26.1m and gross margins of 27%. Growth was driven by PubTONIC, Team Internet's traffic arbitrage platform, as well as the acquisitions of Zeropark, Voluum and Wando. It is worth noting that none of CentralNic's marketing platforms rely on third-party cookies or collect personal data. As such, the Online Marketing division expects to benefit from privacy restrictions implemented by Apple and Google Chrome, as traffic is displaced from other channels.

Outlook: Margins to improve as business scales

Based on the H121 results, management reiterated that CentralNic's recurring revenue model and strong cash generation will provide operating leverage in future periods as the business scales. CentralNic has a full M&A pipeline and comfortable levels of net debt (30 June 2021: US\$83.8m), with attractive interest cover given the profitability and cash generation (H121: 126% adjusted cash conversion) of the group.

Estimates: Higher revenue growth, EBITDA margins to rise

As we indicated in our [Flash note](#) in July 2021, we intended to review our estimates alongside the H121 interim results, once the more detailed margin picture was available.

In its H121 results, following 'significant investment in resources, restructuring and market-leading products and promotions', management guidance is for 'full year revenue and profits to be at least at the upper end of market expectations. As our investment levels plateau, we expect future periods to benefit from increasing operational leverage.'

As such, we are revising our estimates for FY21 and FY22, as well as introducing estimates for FY23, reflecting the following principal changes:

- Revenue growth:** we have revised our FY21e revenue upwards by 8% to US\$350m, by applying a simple annualised revenue run-rate based on H121. Based on the group's investment supporting higher sustainable growth, we have raised organic revenue growth expectations from 6% to 8% for FY22e and FY23e, leading to revenue estimates of US\$379m and US\$409m, respectively.
- Gross margin:** gross margins remained at c 32% in H121 due to the business mix, with the lower-margin Online Marketing outperforming the higher-margin Online Presence in terms of revenue growth. Accordingly, we have adjusted our FY21e gross margins to 32%. With management expecting the group to benefit from increasing operational leverage in future periods, we have then assumed gross margins strengthen to 33% for FY22e and FY23e.
- Adjusted EBITDA and adjusted EBITDA margins:** the H121 adjusted EBITDA margin of 11.7% (H121 adjusted EBITDA: US\$20.5m) was below our 12.2% prior estimate for FY21e, as the business mix has continued to change. We have applied the 11.7% H121 margin for FY21e, leading to a small rise (due to the lift in revenues) in adjusted EBITDA to US\$41.1m, towards the top end of current consensus and allowing for further outperformance of Online Marketing in H221. For FY22e and FY23e, we assume adjusted EBITDA of US\$45.2m (11.9% margin) and US\$48.8m (11.9% margin) respectively, benefiting from a slight lift in margins due to the anticipated operating leverage as opposed to a change in business mix.
- Shares in issue:** following the share and option awards announced in June 2021, we assume that CentralNic has 228.8m voting shares, with 22.4m non-voting shares held by the employee benefit trust (EBT), together making 251.2m fully diluted shares in issue.

Exhibit 3: Edison's revised estimates for FY21e and FY22e and introduction of FY23e

Year end 31 December US\$'000	Actual			Old			New			New			Y-o-y growth
	2020	H121	H221e	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e		
Gross revenue	241,212	174,700	175,433	323,428	350,133	8%	349,953	378,848	8%	409,156	8%		
Net revenues	76,318	55,200	56,842	108,348	112,042	3%	117,234	125,020	7%	135,021	8%		
Adjusted EBITDA	30,594	20,500	20,586	39,458	41,086	4%	43,744	45,213	3%	48,830	8%		
Normalised operating profit	28,510	19,800	17,886	36,664	37,686	3%	40,721	41,534	2%	44,857	8%		
Profit before tax (norm)	19,817	14,500	13,259	26,737	27,759	4%	30,069	30,882	3%	34,208	11%		
Profit before tax (reported)	(9,395)	(600)	6,153	11,261	5,553		10,476	11,464		18,508	61%		
Reported tax	975	(900)	(1,394)	(4,046)	(2,294)		(5,049)	(4,624)		(5,552)			
Net income (normalised)	20,792	12,600	12,866	22,691	25,466	12%	25,020	26,258	5%	28,656	9%		
EPS - basic normalised (c)	10.57	5.74	5.43	9.71	11.17	15%	10.70	11.40	6%	12.44	9%		
EPS - diluted normalised (c)	10.16	5.50	4.67	9.39	10.17	8%	10.35	10.39	0%	11.34	9%		
Revenue growth (%)	120.9	0.0	45.2	34.1	45.2		8.2	8.2		8.0			
Gross margin (%)	31.6	31.6	0.4	33.5	32.0		33.5	33.0		33.0			
Adjusted EBITDA margin (%)	12.7	11.7	0.0	12.2	11.7		12.5	11.9		11.9			
Normalised operating margin (%)	11.8	11.3	0.6	11.3	10.8		11.6	11.0		11.0			
Capex	(4,259)	(1,500)	(2,455)	(4,972)	(3,955)	(20)%	(5,380)	(4,280)	(20)%	(4,622)	8%		
Closing net debt/(cash)	84,985	83,800	80,025	80,038	80,025	(0)%	63,579	62,267	(2)%	34,579	(44)%		

Source: CentralNic accounts, Edison Investment Research

Valuation: Persistent discount to peer group

Whether we compare the group to web services (CentralNic's 'Online Presence') or online marketing companies, CentralNic continues to trade at a material discount to its peers.

Disregarding Verisign, which we include for completeness, the web services peer group in Exhibit 4 trades at average EV/sales multiples of 3.0x for FY1 and 2.7x for FY2 and EV/EBITDA multiples of 10.2x for FY1 and 9.2x for FY2. In terms of P/E, the peer group trades at 26x for FY1 and 20x for FY2. We estimate that CentralNic will deliver 45% sales growth in FY21, meaning it offers among

the strongest growth in the group and yet trades on an FY21 P/E multiple of 12.9x and an FY22 P/E multiple of 12.5x, a discount to the web services peer group averages of 50% and 37% respectively.

With the increasing sales out-performance of Online Marketing, which we expect to continue in the foreseeable future, we have also introduced an online marketing peer group. Given a lack of comparators in Europe, this group is focused on North American peers. Valuations are rich, although average current year sales growth is in excess of 40%, with average EV/EBITDA multiples of 39x and 30x for FY1 and FY2, respectively, and P/E multiples of 94x for FY1 and 64x for FY2.

Exhibit 4: Peer group table

	Year end	Share price	Quoted Ccy	EV (US\$m)	Sales Growth FY1 (%)	Gross margin FY1 (%)	EBITDA margin FY1 (%)	EBIT margin FY1 (%)	EV/sales FY1(x)	EV/sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	P/E 1FY (x)	P/E 2FY (x)
CentralNic Group	Dec-21	103	GBp	409.0	45.2	32.0	11.7	10.8	1.17	1.17	10.0	9.0	12.9	12.5
Web services ('Online Presence') peers														
Verisign	Dec-21	216.2	USD	24,843	4.9	85.7	69.9	65.4	18.7	17.2	26.8	24.1	40.0	35.0
GoDaddy	Dec-21	73.4	USD	14,947	13.0	64.8	21.3	8.7	4.0	3.6	18.7	16.6	63.7	41.9
Criteo	Dec-21	38.3	USD	2,033	9.2	86.1	32.5	20.5	2.3	2.1	6.9	6.5	15.1	14.0
Catena Media	Dec-21	45.2	SEK	446	30.2	75.0	54.3	47.1	2.7	2.5	5.0	4.7	9.1	7.9
iomart group	Mar-22	237.5	GBp	433	2.5	60.7	36.8	19.2	2.7	2.7	7.5	7.4	16.3	15.9
R22	Jun-21	52.1	PLN	243	54.9	NULL	24.7	18.7	3.1	2.7	12.6	10.7	NM	NM
Mean					19.1	74.4	39.9	29.9	5.6	5.1	12.9	11.7	28.8	22.9
Mean (ex Verisign)					22.0	71.6	33.9	22.8	3.0	2.7	10.2	9.2	26.0	19.9
Median					11.1	75.0	34.6	19.8	2.9	2.7	10.1	9.0	16.3	15.9
Online marketing peers														
Trade Desk	Dec-21	80.7	USD	37,929	39.9	81.4	37.9	30.7	32.4	25.2	85.7	68.8	114.8	99.7
Applovin Corp	Dec-21	73.3	USD	27,880	NM	71.7	26.1	10.7	10.3	8.4	39.2	29.1	148.8	82.5
Ironsource	Dec-21	9.8	USD	9,905	NM	84.4	34.0	14.5	19.1	14.5	56.3	43.8	171.6	99.5
Magnite	Dec-21	28.4	USD	4,258	87.2	73.2	30.9	11.7	10.3	7.9	33.2	25.0	46.7	31.3
PubMatic	Dec-21	27.5	USD	1,261	39.9	71.2	32.5	15.4	6.1	4.8	18.6	15.9	59.1	54.3
Quinstreet	Jun-22	17.8	USD	853	11.2	13.5	9.9	5.7	1.3	1.2	13.4	11.1	22.4	18.8
Viant Technology	Dec-21	14.0	USD	792	27.1	61.1	14.6	(27.4)	3.8	3.3	25.8	20.9	NM	NM
Mean					41.1	65.2	26.6	8.7	11.9	9.3	38.9	30.6	93.9	64.3
Median					39.9	71.7	30.9	11.7	10.3	7.9	33.2	25.0	86.9	68.4

Source: Refinitiv data as at 31 August 2021; CentralNic estimates are from Edison Investment Research.

Exhibit 5: Financial summary

31-December	US\$'000	2019	2020	2021e	2022e	2023e
		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		109,194	241,212	350,133	378,848	409,156
Cost of Sales		(66,419)	(164,894)	(238,090)	(253,828)	(274,134)
Gross Profit		42,775	76,318	112,042	125,020	135,021
Adj. EBITDA		17,921	30,594	41,086	45,213	48,830
Normalised operating profit		16,615	28,510	37,686	41,534	44,857
Amortisation of acquired intangibles		(8,299)	(12,508)	(14,406)	(15,468)	(15,700)
Exceptionals		(8,259)	(10,529)	(4,100)	-	-
Share-based payments		(2,878)	(5,113)	(1,700)	-	-
Reported operating profit		(2,821)	360	17,480	26,066	29,157
Net Interest		(471)	(8,693)	(9,927)	(10,652)	(10,649)
Joint ventures & associates (post tax)		74	79	-	-	-
Exceptionals		-	-	(1,000)	(3,950)	-
Profit Before Tax (norm)		16,144	19,817	27,759	30,882	34,208
Profit Before Tax (reported)		(6,616)	(9,395)	6,553	11,464	18,508
Reported tax		39	975	(2,644)	(4,624)	(5,552)
Profit After Tax (norm)		16,119	20,792	25,116	26,258	28,656
Profit After Tax (reported)		(6,577)	(8,420)	3,910	6,840	12,956
Minority interests		64	-	-	-	-
Discontinued operations		-	-	-	-	-
Net income (normalised)		16,183	20,792	25,116	26,258	28,656
Net income (reported)		(6,513)	(8,420)	3,910	6,840	12,956
Basic average number of shares outstanding (m)		175,084	196,680	228,080	230,381	230,381
EPS - basic normalised (c)		9.24	10.57	11.01	11.40	12.44
EPS - diluted normalised (c)		8.97	10.16	10.03	10.39	11.34
CNIC Adj EPS basic (c)		9.24	10.57	11.01	11.40	12.44
EPS - basic reported (c)		(3.72)	(4.28)	1.71	2.97	5.62
Dividend (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		155.9	120.9	45.2	8.2	8.0
Gross Margin (%)		39.2	31.6	32.0	33.0	33.0
Adj. EBITDA Margin (%)		16.4	12.7	11.7	11.9	11.9
Normalised Operating Margin		15.2	11.8	10.8	11.0	11.0
BALANCE SHEET						
Fixed Assets		217,544	271,817	270,766	259,849	241,491
Intangible Assets		206,055	256,955	257,554	248,421	229,233
Tangible and Right-of-use Assets		6,427	8,677	7,028	5,243	6,734
Investments & other		5,062	6,185	6,185	6,185	5,524
Current Assets		67,433	77,606	100,566	118,324	146,330
Stocks		491	1,011	1,011	1,011	1,330
Debtors		40,760	47,941	47,941	47,941	47,941
Cash & cash equivalents		26,182	28,654	51,614	69,372	97,060
Other		-	-	-	-	-
Current Liabilities		(78,767)	(94,421)	(94,421)	(94,421)	(94,529)
Creditors		(75,683)	(87,256)	(87,256)	(87,256)	(87,256)
Tax and social security		-	-	-	-	-
Short term borrowings		(3,084)	(7,165)	(7,165)	(7,165)	(7,273)
Other		-	-	-	-	-
Long Term Liabilities		(129,206)	(137,867)	(155,867)	(155,867)	(155,867)
Long term borrowings		(102,799)	(113,024)	(131,024)	(131,024)	(131,024)
Other long term liabilities		(26,407)	(24,843)	(24,843)	(24,843)	(24,843)
Net Assets		77,004	117,135	121,045	127,885	137,426
Minority interests		69	-	-	-	-
Shareholders' equity		77,073	117,135	121,045	127,885	137,426
CASH FLOW						
PBT		(6,616)	(9,395)	6,553	11,464	18,508
Depreciation and amortisation		9,605	14,592	17,806	19,147	19,673
Share-based payments		2,878	5,113	-	-	-
Working capital		8,963	309	-	-	(319)
Exceptional & other		3,795	9,413	9,927	10,652	10,649
Tax		(2,309)	(1,957)	(2,644)	(4,624)	(5,552)
Net operating cash flow		16,316	18,075	31,642	36,639	42,959
Capex		(15,497)	(4,259)	(3,955)	(4,280)	(4,622)
Acquisitions/disposals		(63,840)	(42,532)	(12,800)	(3,950)	-
Net interest		(1,970)	(9,512)	(9,927)	(10,652)	(10,649)
Equity financing		2,133	37,287	-	-	-
Dividends		-	-	-	-	-
Other		-	1,814	-	-	-
Net Cash Flow		(62,858)	873	4,960	17,757	27,688
Opening net debt/(cash)		2,115	74,998	84,985	80,025	62,267
FX		(6,730)	1,117	-	-	-
Other non-cash movements		(3,295)	(11,977)	-	-	-
Closing net debt/(cash)		74,998	84,985	80,025	62,267	34,579

Source: Company accounts, Edison Investment Research

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